

Earnings Update

FGB

ST Rating: Market Perform

LT Rating: Market Perform

First Gulf Bank – 2Q09 Results

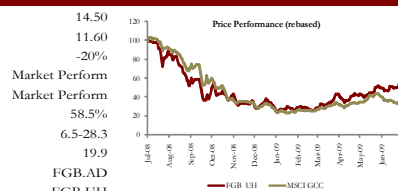
- FGB’s reported 2Q09 net profit of AED 776mm (-3.9% yoy, +3.5% qoq) vs. our expectation of AED 793mm. The bank showed tremendous strength in its lending business, expanding interest income again this quarter which rose by 9.4% qoq to AED 958mm. This was especially good considering the loan book only grew by 2.9% in Q2. Contrary to our expectations, the bank has been successful in re-pricing loans for the new risk environment, and has expanded annualized NIM to 3.56% in Q2 vs. 3.25% in Q1 and 3.11% in 2008. Although investment losses of the previous 3 quarters have reversed course, non-interest income was lower (-19.6% qoq, -39.7% yoy) due to a significant drop in foreign change income and losses on the derivatives exposure. Net-net, flat revenues.
- Provisioning continues** – In line with our expectations, FGB took another AED 260mm in provisions for loan losses and an additional AED 20mm in impairments for the AFS portfolio. The bank disclosed that the NPL’s at the end of Q2 had risen to 1.1% of gross loans from 0.7% at the end of Q1. Based on our estimates, this represents a rise of AED 370mm in NPL’s this quarter alone and AED 474mm in H109 (vs. AED 37mm in 2008). The increase in NPL’s (including exposures to Al Gosaibi and Saad groups) has caused the loss coverage ratio to drop to 165% from 225% at the end of Q1.
- Loans and Deposit growth trouncing the market** - Loan book growth has slowed to 2.9% qoq (AED 86.0bn) down from the 5.3% pace of Q1. This is probably prudent in the current risk environment but it is hard to ignore that Central bank reports suggest bank loan books only grew by 1.4% in the quarter. In the same vein, deposits grew by a healthy 10.5% over the quarter, once again outpacing the system wide gains of a mere 0.5%. The faster deposit raising capability has eased the loans/deposit ratio to 103% from 111%. The bank did receive AED 4.5bn in UAE federal government deposits in Q1 but has not yet completed its conversion into Tier II capital, a fact that will stress the ratio in 3Q09 but is less concerning considering it shores up CAR to an estimated 22%.
- FGB continues to display its **cost leader credentials** in the market, dropping operating expenses by 12% over the quarter to AED 258mm, improving its sector best cost efficiency ratio to below the 20% mark. (Q109 sector average of 33.1%)
- The results on the surface do not disappoint, with strong deposit raising capabilities and continued ability to expand margins while growing the loan book. The stock continues to be supported by treasury buybacks and strong top line numbers (rising 20% above our target price). Our concern on the stock is based on the concentrated risk to the retail and real estate sectors (56.2% of the loan book at the end of 2008) and the early vintages of the majority of the loan book. Hence, we continue to maintain our LT ‘Market Perform’ rating on FGB.

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Equity Data

Current Price (AED) 14.50
Target Price (AED) 11.60
Upside/downside -20%
Short-Term Rating Market Perform
Long-Term Rating Market Perform
YTD Performance 58.5%
52-Week Range (AED) 6.5-28.3
Market Cap. (AED bn.) 19.9
RIC FGB.AD
Bloomberg FGB.UH



| AED Millions, except per share data | 2Q08 | 1Q09 | 2Q09 | yoy | qoq |
|-------------------------------------|--------|---------|---------|--------|--------|
| Net Interest Income | 623 | 875 | 958 | 53.6% | 9.4% |
| Non-Interest Income | 590 | 443 | 356 | -39.7% | -19.6% |
| Total Income | 1213 | 1318 | 1314 | 8.3% | -0.3% |
| Non-Interest Expense | (248) | (293) | (258) | 4.1% | -11.9% |
| Provisions | (158) | (275) | (280) | 77.6% | 1.9% |
| Net Profit | 808 | 750 | 776 | -3.9% | 3.5% |
| Adjusted EPS | 0.59 | 0.55 | 0.57 | -3.9% | 3.4% |
| Net Loans | 65,739 | 83,640 | 86,041 | 30.9% | 2.9% |
| Total Assets | 94,325 | 109,417 | 118,644 | 25.8% | 8.4% |
| Customer Deposit | 61,172 | 75,744 | 83,725 | 36.9% | 10.5% |
| Loans/Deposits | 107.5% | 110.4% | 102.8% | | |
| Efficiency Ratio | -20.4% | -22.2% | -19.6% | | |

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